

**ALLEGAN COUNTY COMMUNITY
MENTAL HEALTH BOARD**

03-7517

FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004



REHMANN ROBSON

Certified Public Accountants

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name ALLEGAN COMMUNITY MENTAL HEALTH BOARD	County ALLEGAN
Audit Date 9/30/04	Opinion Date JANUARY 12, 2005	Date Accountant Report Submitted to State: FEBRUARY 28, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

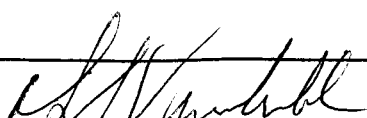
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON			
Street Address PO BOX 6547	City GRAND RAPIDS	State MI	ZIP 49516-6547
Accountant Signature 			

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

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REHMANN ROBSON

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INDEPENDENT AUDITORS' REPORT

January 12, 2005

To the Allegan County Community
Mental Health Board
Allegan, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Allegan County Community Mental Health Board (the "Board") of Allegan County, Michigan, as of and for the year ended September 30, 2004, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Allegan County Community Mental Health Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Allegan County Community Mental Health Board funds and do not purport to, and do not present fairly the financial position of Allegan County, Michigan as of September 30, 2004 and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Allegan County Community Mental Health Board, as of September 30, 2004, and the respective changes in financial position and cash flows thereof and the budgetary comparison for the major special revenue fund for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2005, on our consideration of Allegan County Community Mental Health Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Allegan County Community Mental Health Board's basic financial statements. The combining internal service fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

Rehmann Lohsen

MANAGEMENT'S DISCUSSION AND ANALYSIS

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH SERVICES
Management's Discussion and Analysis
Fiscal Year October 1, 2003 – September 30, 2004

The following Management Discussion and Analysis (MD&A) provides an introduction to the financial statements of the Allegan County Community Mental Health Services (ACCMHS) agency for the fiscal year ended September 30, 2004. This presentation is an effort to better inform the reader of the financial statements and presents an analysis and overview of the financial activities and condition of the organization during the past fiscal year.

The Allegan County Community Mental Health Services is an official agency of Allegan County which provides programs, services and supports for persons with severe and persistent mental illness and persons with developmental disabilities that are administered pursuant to the provisions of the Michigan Mental Health Code.

The County Board of Commissioners appoints members to the Mental Health Board, which governs the agency. The County also provides financial support to the agency on an annual basis and the agency is considered a department of Allegan County for reporting purposes in the audit for the County of Allegan.

The information contained in this MD&A should be considered in conjunction with the information contained in the basic financial statements for the period ended September 30, 2004. This MD&A contains information on the basic financial statements of the agency together with any required explanation, which would be essential to acquire a full understanding of the data contained therein.

Funding Background

In 1998, the Community Mental Health system went from a fee-for-service system to a capitated arrangement. In such an arrangement, each CMH receives a payment each month for each Medicaid recipient in the county. This payment is designed to cover the cost of providing mental health care to those Medicaid recipients in need of such care. A similar arrangement, using a different formula – primarily historical – provides funding to the CMH system to serve the non-Medicaid residents in the county. Under this arrangement, our revenue does not change when we serve more people or provide more care. It changes only when the number of Medicaid enrollees in the county increases or decreases.

Prior to the switch to a capitated system, for nearly two decades, the CMH system in Michigan received an ever-increasing share of its funding via the federal Medicaid system, on a fee-for-service basis. Therefore, the more services we provided, the more money we received. We received approximately one federal dollar for every state dollar that was spent serving a Medicaid recipient. State funding during this period was not increased. The state funds used to match the federal dollars were those state funds that were already in our budget.

The CMH system took on a number of mental health responsibilities formerly held by the state, including the community placement of former state hospital residents, AIS homes, utilization

management of and payment for local inpatient psychiatric hospital care. These were the primary sources of revenue growth for the CMH system over the past decades. This constitutes a transfer of responsibility more than a true increase in revenue. No new state dollars were added to the system during this time, so true revenues remained flat or decreased.

ACCMHS has been committed to remain clinically, organizationally and fiscally strong despite flat funding, unavoidable increases in costs, increased demand for services and the severity of the needs of those whom we serve. We have been committed to and successful in making budget cuts when necessary that avoid harming consumers.

Beginning October 1, 2002, the Michigan Department of Community Health contracted with a designated Prepaid Inpatient Health Plan (PIHP) for Medicaid services within a designated geographic region. Kalamazoo Community Mental Health Services was awarded the contract for the four county region of Kalamazoo, Allegan, Cass and St. Joseph counties. Kalamazoo then entered into a Medicaid sub-contract agreement with each of the CMHSP's. Separate General Fund contracts were issued by the state to each individual Community Mental Health Service Program (CMHSP).

This contracting arrangement is expected to remain the same through fiscal year 2005.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to ACCMHS's basic financial statements. The basic financial statements are comprised of three components: government-wide financial statements, fund financial statements and notes to the financial statements.

The **government-wide financial statements** are designed to provide readers with a broad overview of the organization's finances in a manner similar to a private sector business, that focus on operations of the organization as a whole.

The Statement of Net Assets presents information of all of Allegan County Community Mental Health Services "assets" (what is owned), "liabilities" (what is owed) and the "net assets" (the resources that would remain if all obligations were settled). Changes in net assets serve as a useful indicator in determining whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how net assets changed during the fiscal year. Reporting of activities is on an accrual basis; meaning that revenues are recognized when earned, not when received and expenses are recognized when incurred, not when paid.

The **fund financial statements** report groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. ACCMHS uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. These funds are divided into two categories: governmental funds and proprietary funds.

The proprietary funds reported by ACCMHS in fiscal year 2003 were internal service funds which accounted for the self-retention portion of risk insurance. The financial risk insurance fund was liquidated during fiscal year 2004 due to the unavailability of this type of risk insurance.

Governmental fund statements have a narrower focus than that of the government-wide financial statements in that its focus is on the short-term movement of spendable resources available at the end of the fiscal year.

The following government-wide statement is included in this discussion with comparative totals for the prior fiscal year.

	FY 2004	FY 2003
Assets		
Cash & cash equivalents	\$2,416,502	\$3,143,597
Receivables	341,251	630,824
Prepaid items	114,792	24,103
Capital assets, net of accumulated depreciation	207,665	160,815
Total Assets	<u>3,080,210</u>	<u>3,959,339</u>
Liabilities		
Accounts payable	1,801,415	2,610,694
Due to State	0	6,271
Deferred revenue	50,055	112,085
Total Liabilities	<u>1,851,470</u>	<u>2,729,050</u>
Net Assets		
Invested in capital assets	207,665	160,815
Restricted for insurance self-retention	0	169,180
Unrestricted Fund Balance	1,021,075	900,294
Total Net Assets	<u>\$1,228,740</u>	<u>\$1,230,289</u>

Several significant variances were revealed in this statement, which are explained as follows:

	FY 2004	FY 2003
Cash & cash equivalents	\$2,416,502	\$3,143,597
Receivables	341,251	630,824
Prepaid items	114,792	24,103
Due to State	0	6,271
Deferred revenue	50,055	112,085
Accounts payable	1,801,415	2,610,694
Reserved for insurance self-retention	0	169,180
Unrestricted Fund Balance	1,021,075	900,294

Significant reduction in both accounts receivable and accounts payable at fiscal year end affected the cash account. The transfer in from the risk-retention reserve (including interest) added \$174,858 to general operations. The increase in prepaid items reflects an increase in the use of fiscal intermediary services. The FY 2003 amount due to the state reflects an amount allocated by MDCH for the department's risk, which was not authorized to be spent and therefore was returned to the state. In FY 2004, this risk amount was removed from the CMHSP's allocation. Deferred revenue reflects the amount of unspent state general funds that are carried forward for use in the next fiscal year and fall within the 5% carry forward provision of the contract.

These activities contributed to an increase to the fund balance of \$120,781, \$29,576 of which is held in the self-insurance fund for future claims, leaving a net increase of \$91,205. Actual financial activities for the year resulted in an excess of expenditures over revenues of \$1,549, therefore, total net assets of the Agency decreased by \$1,549.

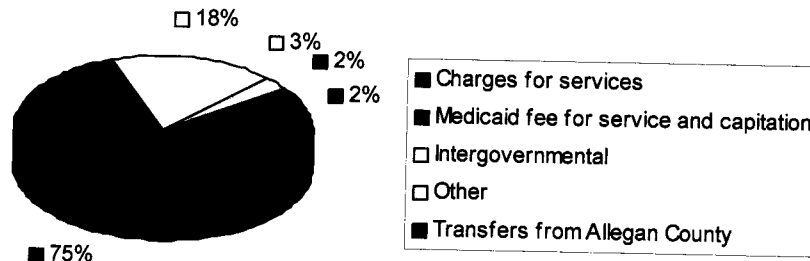
ACCMHS has participated in the Michigan Municipal Risk Management Authority Risk Protection Plan for several years. This is an insurance-type program to cover potential Community Mental Health Board budget overruns. In fiscal year 2004, MMRMA was not comfortable with the new funding provisions as proposed by the state. For this reason, they did not issue coverage agreements for the fiscal year beginning October 1, 2003. ACCMHS dissolved the reserve for self-retention and transferred the balance to general operations.

The following government-wide statement is included in this discussion with comparative totals for the prior fiscal year.

	FY 2004	FY 2003
Program Revenues		
Charges for services	\$398,687	\$540,108
Medicaid fee for service and capitation	13,018,831	13,022,324
Intergovernmental	3,094,785	3,152,510
Other revenue	444,299	208,960
Total Revenue	<u>16,956,602</u>	<u>16,923,902</u>
Expenses		
Health and welfare	<u>17,317,751</u>	<u>17,320,586</u>
Total Expenses	<u>17,317,751</u>	<u>17,320,586</u>
Excess of Expense over Revenues before contributions	(361,149)	(396,684)
Transfers from Allegan County	<u>359,600</u>	<u>409,600</u>
Change in net assets	(1,549)	12,916
Net Assets at the Beginning of the Year	<u>1,230,289</u>	<u>1,217,373</u>
Net assets at the End of the Year	<u>\$1,228,740</u>	<u>\$1,230,289</u>

There were no significant variances revealed in this statement.

Revenues and transfers - Governmental Activities



Budgetary Highlights

The budget for any particular fiscal year is developed several months prior to notification of funding levels. The ACCMHS Board reviews and approves a budget in September for an October 1 start date. Development of the annual budget begins in June, four months prior to its implementation. The funding levels from the State and other sources are often not received or known until well after the start of a fiscal year. Especially during times of economic stress, these amounts are subject to change during the fiscal year.

The differences between the original and final budget illustrate this uncertainty of funding, especially given the time frame for implementing the budget for the start of the fiscal year. Changes during the 2004 fiscal year included an anticipated increase in Medicaid sub-capitation, which was mitigated by a return to the PIHP of \$126,140 in unspent Medicaid, and other specific line item revenues such as Federal Block Grants and other grants, reimbursements and categorical funding. This information, as received, resulted in changes to the level of spending approved by management.

Ultimately, ACCMHS experienced an overall reduced level of revenues, which required a corresponding decrease in expenditures, primarily achieved in the personnel area through attrition and the delaying or not filling of vacant positions.

Capital Asset and Debt Administration

Capital Assets

At September 30, 2004, the ACCMHS had \$207,665 invested in equipment and vehicles. This amount represents a net increase of approximately \$50,000 over last year. Current year depreciation expense was \$66,280.

	2004	2003
Furniture and equipment	\$ 211,867	\$ 211,867
Vehicles	506,717	497,637
Accumulated depreciation	<u>(510,919)</u>	<u>(548,689)</u>
Total capital assets	<u>\$ 207,665</u>	<u>\$ 160,815</u>

Factors Impacting the Future

The greatest impact to the agency's future funding is the contract with the Michigan Department of Community Health. The funding levels from the State are in turn impacted by the State of Michigan's economy, potential Executive Order reductions issued by the Governor, and the approval of waiver provisions by the Centers of Medicare and Medicaid Services. Allegan County government is also experiencing budget reductions, including but not limited to state reductions in revenue sharing. This has resulted in reductions in the local match allocation to ACCMHS.

Medicaid funding, while received by ACCMHS through a sub-capitation agreement with the PIHP, is dependent on the number of persons that meet Medicaid eligibility criteria. In recent years, Allegan County, as well as the other counties in the affiliation, have experienced an increase in the numbers of Medicaid enrollees, which has slightly increased Medicaid revenues. However, CMHSP's are also required to meet any increased demand for the mental health needs of those Medicaid enrollees who meet the eligibility criteria for services and supports. Conversely, should there be a reduction in the number of Medicaid eligible persons, our funding level would reduce. Any reduction in the Medicaid population, however, may not impact the number of persons receiving our services. Medicaid funding may not be utilized for services to non-Medicaid consumers.

Therefore, funding is uncertain for fiscal year 2005. For fiscal year 2004, the affiliation reported Medicaid revenue of \$62,051,460 and Medicaid expenditures of \$61,954,494, resulting in a surplus of \$96,966 that falls within the contractual 5% Medicaid carry forward provision and is held by the PIHP.

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

Statement of Net Assets and Special Revenue Fund Balance Sheet

September 30, 2004

	<u>Special Revenue Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$2,327,408	\$ 89,094	\$2,416,502
Receivables:			
Outpatient fees	25,716	-	25,716
Medicaid	34,040	-	34,040
Medicare	33,421	-	33,421
Insurances	33,266	-	33,266
Industrial contracts	6,999	-	6,999
Other	207,809	-	207,809
Prepaid items	94,351	20,441	114,792
Capital assets, net of accumulated depreciation	-	207,665	207,665
	<u> </u>	<u> </u>	<u> </u>
<u>TOTAL ASSETS</u>	<u>\$2,763,010</u>	<u>317,200</u>	<u>3,080,210</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities			
Accounts payable	\$1,721,456	79,959	1,801,415
Deferred revenue	50,055	-	50,055
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>1,771,511</u>	<u>79,959</u>	<u>1,851,470</u>
Fund balance/net assets			
Reserved for prepaid items	94,351	(94,351)	-
Unreserved - undesignated	897,148	(897,148)	-
	<u> </u>	<u> </u>	<u> </u>
Total fund balance	<u>991,499</u>	<u>(991,499)</u>	<u>-</u>
	<u> </u>	<u> </u>	<u> </u>
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	<u>\$2,763,010</u>		
Net assets			
Invested in capital assets		207,665	207,665
Unrestricted		1,021,075	1,021,075
		<u> </u>	<u> </u>
<u>TOTAL NET ASSETS</u>		<u>\$ 1,228,740</u>	<u>\$1,228,740</u>

The accompanying notes are an integral part of these financial statements.

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Reconciliation of Special Revenue Fund Balance Sheet
to Statement of Net Assets**

September 30, 2004

Fund balance - Special Revenue Fund	\$ 991,499
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - equipment and vehicles	718,584
Deduct - accumulated depreciation	(510,919)

Assets and liabilities of the internal service funds are included in governmental activities

Add - Cash	89,094
Add - Prepaid expenses	20,441
Deduct - Accrued self-insurance claims	<u>(79,959)</u>

Net assets of governmental activities	<u><u>\$ 1,228,740</u></u>
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The accompanying notes are an integral part of these financial statements.

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Statement of Activities and Special Revenue Fund Revenues,
Expenditures and Changes in Fund Balance**

For the Year Ended September 30, 2004

Revenue	Special Revenue Fund	Adjustments	Statement of Activities
Medicaid fee for service and capitation	\$ 13,018,831	\$ -	\$ 13,018,831
Intergovernmental:			
Federal	625,632	-	625,632
State	2,469,153	-	2,469,153
Charges for services:			
Other insurance	137,815	-	137,815
Other service fees	132,763	-	132,763
Interest	56,877	6,279	63,156
Other revenues and reimbursements:			
Revenue contracts	128,109	-	128,109
Other	381,143	-	381,143
Total revenue	<u>16,950,323</u>	<u>6,279</u>	<u>16,956,602</u>
Expenditures/expenses			
Health and Welfare			
Personnel costs	7,595,152	(28,975)	7,566,177
Operating expenditures	9,647,349	66,280	9,713,629
Capital outlay	<u>151,075</u>	<u>(113,130)</u>	<u>37,945</u>
Total expenditures/expenses	<u>17,393,576</u>	<u>(75,825)</u>	<u>17,317,751</u>
Excess (deficiency) of revenue over (under) expenditures/expenses	<u>(443,253)</u>	<u>82,104</u>	<u>(361,149)</u>
Other financing sources			
Transfer in - Risk reserve	174,858	(174,858)	-
Transfer in - County appropriation	<u>359,600</u>	<u>-</u>	<u>359,600</u>
Total other financing sources	<u>534,458</u>	<u>(174,858)</u>	<u>359,600</u>
Net change in fund balance/change in net assets	91,205	(92,754)	(1,549)
Fund balance/net assets			
Beginning of year	<u>900,294</u>	<u>329,995</u>	<u>1,230,289</u>
End of year	<u>\$ 991,499</u>	<u>\$ 237,241</u>	<u>\$ 1,228,740</u>

The accompanying notes are an integral part of these financial statements.

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Reconciliation of the Special Revenue Fund Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities**

For the Year Ended September 30, 2004

Net change in fund balance - Special Revenue Fund	\$ 91,205
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Amounts reported for *governmental activities* in the statement of activities are different because:

Special revenue funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	113,130
Deduct - depreciation expense	(66,280)

Interest income of internal service funds is recorded as an increase to interest income of governmental activities.	6,279
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Transfer from internal service fund to special revenue fund	(174,858)
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Changes in net assets of internal service funds before consideration of interest income is recorded as an adjustment to governmental expenditures.	<u>28,975</u>
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Change in net assets of governmental activities	<u><u>\$ (1,549)</u></u>
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The accompanying notes are an integral part of these financial statements.

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Statement of Revenue, Expenditures and Changes in Fund Balance -
Special Revenue Fund Budget and Actual**

For the Year Ended September 30, 2004

	Original Budget	Amended Budget	Actual	Variance With Amended Budget Positive (Negative)
Revenue				
Medicaid fee for service and capitation	\$ 13,171,330	\$ 13,239,550	\$ 13,018,831	\$ (220,719)
Intergovernmental:				
Federal	669,745	668,800	625,632	(43,168)
State	2,642,975	2,869,210	2,469,153	(400,057)
Charges for services:				
Other insurance	98,720	98,720	137,815	39,095
Other service fees	190,095	183,380	132,763	(50,617)
Interest	94,290	94,290	56,877	(37,413)
Other revenues and reimbursements:				
Revenue contracts	121,000	121,000	128,109	7,109
Other	170,615	112,015	381,143	269,128
Total revenue	17,158,770	17,386,965	16,950,323	(436,642)
Expenditures				
Health and welfare				
Personnel costs	8,043,370	8,040,275	7,595,152	445,123
Operating expenditures	9,455,640	9,662,815	9,647,349	15,466
Capital outlay	56,700	85,615	151,075	(65,460)
Total expenditures	17,555,710	17,788,705	17,393,576	395,129
Revenue over (under) expenditures	(396,940)	(401,740)	(443,253)	(41,513)
Other financing sources				
Transfer in - risk reserve	-	174,858	174,858	-
Transfer in - county appropriation	396,940	401,740	359,600	(42,140)
Total other financing sources	396,940	576,598	534,458	(42,140)
Net changes in fund balance	-	174,858	91,205	(83,653)
Fund balance, beginning of year	900,294	900,294	900,294	-
Fund balance, end of year	\$ 900,294	\$ 1,075,152	\$ 991,499	\$ (83,653)

The accompanying notes are an integral part of these financial statements.

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Statement of Net Assets
Internal Service Funds**

September 30, 2004

	<u>Governmental Activities</u>
Current assets	
Cash and cash equivalents	\$ 89,094
Prepaid items	<u>20,441</u>
Total assets	109,535
Current liabilities	
Accrued self-insurance claims	<u>79,959</u>
Net assets - unrestricted	<u><u>\$ 29,576</u></u>

The accompanying notes are an integral part of these financial statements.

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Statement of Revenue, Expenses and Changes in Fund Net Assets
Internal Service Funds**

For the Year Ended September 30, 2004

	Governmental Activities
Operating revenue	
Premiums	\$ 1,218,597
Interest	<u>6,279</u>
Total operating revenue	<u>1,224,876</u>
Operating expenses	
Claims	945,243
Management fees	97,575
Insurance premiums	<u>146,804</u>
Total operating expenses	<u>1,189,622</u>
Operating income	35,254
Other financing uses	
Transfer out	<u>(174,858)</u>
Change in net assets	(139,604)
Net assets, beginning of year	<u>169,180</u>
Net assets, end of year	<u><u>\$ 29,576</u></u>

The accompanying notes are an integral part of these financial statements.

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Statement of Cash Flows
Internal Service Funds**

For the Year Ended September 30, 2004

	Governmental Activities
Cash flows from operating activities	
Receipts from other funds	\$ 1,350,247
Claims paid	(1,091,625)
Payments to insurance companies	(244,379)
Interest income	<u>6,279</u>
Net cash provided by operating activities	20,522
Cash flows from non-capital and related financing activities	
Transfers to other funds	<u>(174,858)</u>
Net increase (decrease) in cash and cash equivalents	(154,336)
Cash and cash equivalents, beginning of year	<u>243,430</u>
Cash and cash equivalents, end of year	<u>\$ 89,094</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 35,254
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities which provided (used) cash:	
Prepaid items	(20,441)
Interfund receivable	131,650
Accrued self-insurance claims	(41,423)
Claims payable	<u>(84,518)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 20,522</u>

The accompanying notes are an integral part of these financial statement.

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Allegan County Community Mental Health Board (the "Board") was created by resolution of the Allegan County Board of Commissioners pursuant to Act 54 of the Public Acts of 1963, as amended. The Board, which is composed of certain elected County officials and other individuals, is responsible for serving the mental health needs of Allegan County residents in accordance with its full management contract with the Michigan Department of Community Health (MDCH) and the Michigan Mental Health Code.

Reporting Entity – These financial statements represent the financial condition and the results of operations of a special revenue fund and two internal service funds of Allegan County, Michigan (the "County") and are an integral part of that reporting entity. The Board is not a component unit of Allegan County or any other reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*.

Government-wide and Fund Financial Statements - The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Allegan County Community Mental Health Board. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* normally are supported by intergovernmental revenues.

A separate column is presented for the special revenue fund (major fund) on the statement of net assets and governmental funds balance sheet and statement of activities and governmental fund revenues, expenditures and changes in fund balance. This separate column takes the place of the government funds financial statement presentation. This alternative method of presenting major fund information is utilized because only one major fund (special revenue fund) is utilized by the Board. The statement of net assets, statement of revenues, expenses and changes in fund net assets and statement of cash flows presents the total of all internal service funds.

Governmental Activities

Special Revenue Fund – The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Internal Service Funds – The Self-Insurance Fund accounts for activities which provide health insurance and medical reimbursements to all qualified employees. The Risk Reserve Fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - The government-wide financial statements (statement of net assets and statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Intergovernmental revenue, charges for services and other revenue associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to the special revenue fund for insurance services. Operating expenses for internal service funds include the cost of claims, administration, and reinsurance. Any revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Capital Assets - Capital assets are not capitalized in the special revenue funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in the special revenue fund.

Capital assets, which include office equipment and vehicles, are reported in the government wide financial statements. Capital assets are defined as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded for reporting purposes at historical cost or estimated historical cost if constructed or purchased.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Equipment	3-7
Vehicles	5

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents – The Board's cash consists of cash on hand, demand deposits and deposits with the Allegan County treasurer.

Receivables – Receivables consist primarily of amounts due from the State of Michigan for Medicaid billings and grant reimbursements under the terms of its full management contract and from other agencies, governments and organizations for services rendered. Amounts receivable under the full management contract are subject to a cost settlement process and, as such, provision has been made by the Board for adjustments as estimated by management.

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Budgetary Accounting – The Board's special revenue fund is under formal budgetary control and follows both the County and MDCH's annual budget process in establishing the budgetary data presented in the financial statements. The annual fiscal budget is adopted on a basis consistent with generally accepted accounting principles and the requirements of the MDCH.

Transfer In-County Appropriation

This transfer represents a subsidy provided by the County general operations.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Board's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a program basis. The approved budgets of the Board for these budgetary funds were adopted at the activity level within a function. Any budgetary overages have been displayed in the statement of revenues, expenditures and changes in fund balance – budget and actual.

3. CASH AND CASH EQUIVALENTS

As of September 30, 2004, the carrying amount and bank balance of deposits was as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Deposits:		
Insured (FDIC)	\$ 100,000	\$ 100,000
Uninsured, uncollateralized	<u>2,316,502</u>	<u>2,569,899</u>
Total	<u>\$2,416,502</u>	<u>\$2,669,899</u>

Deposits of the Board held by Allegan County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Board. All accounts are in the name of the Board and a specific fund or a specific fund or common account. They are recorded in the Board's records at cost. Interest is recorded when deposits mature or is credited to the applicable account.

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

NOTES TO FINANCIAL STATEMENTS

3. CASH AND CASH EQUIVALENTS (CONTINUED)

Statutory Authority

The Board is authorized by the governing body to invest surplus funds, in the following:

- Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through 12/31/97.

4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2004 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Equipment	\$211,867	\$ -	\$ -	\$211,867
Vehicles	497,637	113,130	(104,050)	506,717
Total	709,504	113,130	(104,050)	718,584
Accumulated depreciation	(548,689)	(66,280)	104,050	510,919
Net	\$160,815	\$46,850	\$ -	\$207,665

5. PENSION PLANS

Allegan County Community Mental Health Board maintains both a defined benefit plan and a defined contribution plan for its eligible employees. New employees have the option of participating in the defined contribution plan. Individuals employed before the defined contribution plan was in effect were offered the opportunity to convert to the defined contribution plan.

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

NOTES TO FINANCIAL STATEMENTS

5. PENSION PLANS (CONTINUED)

Defined Benefit Plan

Plan Description – The Board's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Board participates along with Allegan County in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy - The Board is required to contribute at an actuarially determined rate; the current rate is 0.0% of annual covered payroll. Employees are also required to contribute 4.0%. The contribution requirements of the Board are established, and may be amended, by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Board, depending on the MERS contribution program adopted by the Board.

Annual Pension Cost - During the year ended September 30, 2004, the Board made contributions to the plan totaling \$0 which is based on actuarial projections of funding requirements. Employee contributions for the same period were \$17,747.

Additional historical information is not available for the Boards' participation in MERS because a separate actuarial valuation has not been completed. The actuarial data is included in Allegan County's valuation.

Defined Contribution Plan

The Board's defined contribution plan is offered through MERS and administered by ICMA. Benefit provisions and contribution requirements are established and may be amended by Allegan County Community Mental Health Board. The Board makes contributions of 4% of each participant's salary and will match 100% up to an additional 2% of salary. Employees may make voluntary contributions up to 17% of their salary. The covered payroll for the plan was approximately \$4,910,000. Total contributions for the year ended September 30, 2004, were \$413,263 (\$129,491 employee and \$283,772 employer; 2.6 percent and 5.8 percent of covered payroll, respectively).

6. SELF-INSURANCE PROGRAMS

The Board provides health, dental, long-term disability, short-term disability, and life insurances to all its eligible employees through the Self-Insurance Internal Service Fund. The self-insured programs are administered by a third-party administrator who provides claims review and process services as well as illustrated premium rates, which are anticipated, over time, to approximate the actual cost of benefits.

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

NOTES TO FINANCIAL STATEMENTS

6. SELF-INSURANCE PROGRAMS (CONTINUED)

Premiums for self-insured programs are paid into the internal service funds based on actual or illustrated rates. These premiums are available to pay claims, claim reserves, excess coverage and administrative costs. Excess coverage insurance purchased by the Board covers individual claims in excess of \$30,000 annually, subject to an aggregate lifetime limitation of \$1,000,000 for medical claims only. The liability at the end of the year is based on claims already incurred and reported as well as an estimate for claims incurred but not reported at September 30, 2004.

The change in the claims liability for the years ended September 30, 2004 and 2003 is as follows:

	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Year Liability</u>
2003	\$174,011	\$1,133,264	\$1,101,375	\$205,900
2004	205,900	965,684	1,091,625	79,959

7. CONCENTRATIONS AND ECONOMIC DEPENDENCY

The Board maintains its cash accounts in federally insured institutions and does not consider there to be significant risk associated with deposits in excess of federally insured amounts.

Approximately 93% of total revenue and 24% of total accounts receivable are amounts, either directly or indirectly, paid by or due from the Michigan Department of Community Health.

8. FEDERAL AWARDS

The federal funds expended by the Board are audited as part of the single audit of the County of Allegan.

9. LITIGATION

In the normal course of its activities, the Board has become a party in various legal actions. Management of the Board is of the opinion that the outcome of such actions will not have a material effect on the financial position of the Board and, therefore, has not reflected loss reserves in the financial statements.

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SUPPLEMENTARY INFORMATION

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Combining Statement of Net Assets
Internal Service Funds**

September 30, 2004

	<u>Self - Insurance</u>	<u>Risk Reserve</u>	<u>Total</u>
Current assets			
Cash and cash equivalents	\$ 89,094	\$ -	\$ 89,094
Prepaid items	<u>20,441</u>	<u>-</u>	<u>20,441</u>
Total assets	109,535	-	109,535
Current liabilities			
Accrued self-insurance claims	<u>79,959</u>	<u>-</u>	<u>79,959</u>
Net assets - unrestricted	<u><u>\$ 29,576</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 29,576</u></u>

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Funds**

For the Year Ended September 30, 2004

	<u>Self - Insurance</u>	<u>Risk Reserve</u>	<u>Total</u>
Operating revenue			
Premiums	\$ 1,218,597	\$ -	\$ 1,218,597
Interest	601	5,678	6,279
	<u>1,219,198</u>	<u>5,678</u>	<u>1,224,876</u>
Total operating revenue			
Operating expenses			
Claims	945,243	-	945,243
Management fees	97,575	-	97,575
Insurance premiums	146,804	-	146,804
	<u>1,189,622</u>	<u>-</u>	<u>1,189,622</u>
Total operating expenses			
Operating income	29,576	5,678	35,254
Other financing sources			
Transfer out	-	(174,858)	(174,858)
Change in net assets	29,576	(169,180)	(139,604)
Net assets, beginning of year	-	169,180	169,180
Net assets, end of year	<u><u>\$ 29,576</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 29,576</u></u>

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Combining Statement of Cash Flows
Internal Service Funds**

For the Year Ended September 30, 2004

	<u>Self - Insurance</u>	<u>Risk Reserve</u>	<u>Total</u>
Cash flows from operating activities			
Receipts from other funds	\$ 1,350,247	\$ -	\$ 1,350,247
Claims paid	(1,091,625)	-	(1,091,625)
Payments to insurance companies	(244,379)	-	(244,379)
Interest income	<u>601</u>	<u>5,678</u>	<u>6,279</u>
Net cash provided by operating activities	14,844	5,678	20,522
Cash flows from non-capital and related financing activities			
Transfers to other funds	<u>-</u>	<u>(174,858)</u>	<u>(174,858)</u>
Net increase (decrease) in cash and cash equivalents	14,844	(169,180)	(154,336)
Cash and cash equivalents, beginning of year	<u>74,250</u>	<u>169,180</u>	<u>243,430</u>
Cash and cash equivalents, end of year	<u><u>\$ 89,094</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 89,094</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	\$ 29,576	\$ 5,678	\$ 35,254
Adjustments to reconcile operating income to net cash provided by operating activities:			
Change in assets and liabilities which provided (used) cash:			
Prepaid expenses	(20,441)	-	(20,441)
Interfund receivable	131,650	-	131,650
Accrued self-insurance claims	(41,423)	-	(41,423)
Claims payable	<u>(84,518)</u>	<u>-</u>	<u>(84,518)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 14,844</u></u>	<u><u>\$ 5,678</u></u>	<u><u>\$ 20,522</u></u>

INTERNAL CONTROL AND COMPLIANCE



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

January 12, 2005

To the Allegan County Community
Mental Health Board
Allegan, Michigan

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Allegan County Community Mental Health Board (the "Board") Allegan County, Michigan, as of and for the year ended September 30, 2004, which collectively comprise the Board's basic financial statements as listed in the table of contents and have issued our report thereon dated January 12, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board, management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rehmann Robson